

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF PETERSBURG</b>	County <b>MONROE</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>9/24/04</b>	Date Accountant Report Submitted to State: <b>1/31/2005</b>	

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

12/20/04

**CITY OF PETERSBURG**  
Monroe County, Michigan

**ANNUAL FINANCIAL REPORT**

June 30, 2004

# CITY OF PETERSBURG

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Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Petersburg, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Petersburg, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Petersburg, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Petersburg, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members  
of the City Council  
City of Petersburg, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Petersburg, Monroe County, Michigan basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1 the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Covey H. 2022 Worthington & Carlton*

September 24, 2004

CITY OF PETERSBURG  
Management's Discussion and Analysis  
June 30, 2004

As management of the City of Petersburg, we offer the readers of the financial statements of the City this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. During fiscal year 2004, the City implemented Governmental Accounting Standards Board Statement No. 34. GASB 34 requires the management of the City to prepare this document called *Management's Discussion and Analysis*. Please read this discussion and analysis in conjunction with the City's financial statements.

**Financial Highlights**

As presented in greater detail in the financial statements that follow, this discussion and analysis represents significant financial highlights for the fiscal year ended June 30, 2004.

- In November 2003 the City transitioned from a flat fee, un-metered well water system to a metered water system. Petersburg now purchases water from the City of Monroe through a new transmission system constructed in 2003 at a cost of approximately \$2.7 Million. The City water fund had non-operating revenues of \$501, 998 in 2004. This is a dramatic increase from prior year due primarily to a one-time tap fee charged to new City water customers located in the townships and a quarterly debt service charge to all City property owners and township water customers. The financial impact of constructing and financing this new water transmission system is reflected in various applicable sections of the financial statements.
- The City's municipal building was totally destroyed by fire in 2001. In 2004 the actual expenditures identified for construction on the new city hall exceeded the budgeted amount by \$27,726. This difference resulted from an adjustment that reduced the amount of expected fire insurance proceeds by \$30,082.
- The actual amount expended for library services exceeded the budgeted amount by \$38,760. This difference resulted from the purchase of a building that adjoins the existing library facility for future library expansion. This purchase was shared equally with Summerfield Township.
- The major street fund reflected an end-of-year fund balance increase of \$43,851, which resulted from delaying a proposed project to the 2005 fiscal year.
- State-shared revenue, the City's second largest revenue source, was reduced by the State of Michigan by approximately \$16,800. In anticipation of this reduction, and with the expectation that such reductions will continue, the City has limited its general fund expenditures with the goal of increasing the end-of-year fund balance to offset such reductions in this year and in future years.

**Using this Annual Report**

This discussion and analysis is intended to provide a basis of understanding of the City's basic financial statements. These statements present the following components: presentation of net assets; statement of activities; balance sheet; reconciliation of the governmental funds balance sheet to statement of net assets; statement of revenues, expenditures and changes in fund balances; reconciliation of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities; proprietary funds reports; general fund budget to actual comparisons; notes to financial statements; and supplemental information.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

CITY OF PETERSBURG  
Management's Discussion and Analysis  
June 30, 2004

The fund financial statement presents a short-term view; they tell us how the citizens' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

**The City as a Whole**

The following table shows, in a condensed format, the net assets as of the June 30, 2004.

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
<b>Assets</b>			
Current assets	\$ 878,522	\$ 959,723	\$ 1,838,245
Capital assets	<u>733,991</u>	<u>4,614,596</u>	<u>5,348,587</u>
Total assets	1,612,513	5,574,319	7,186,832
<b>Liabilities</b>			
Current liabilities	82,489	320,677	403,166
Long-term liabilities	<u>915,000</u>	<u>2,615,000</u>	<u>3,530,000</u>
Total liabilities	<u>997,489</u>	<u>2,935,677</u>	<u>3,933,166</u>
<b>Net Assets</b>			
Invested in capital assets			
net of related debt	(211,009)	1,995,983	1,784,974
Restricted	-	121,869	121,869
Unrestricted	<u>826,033</u>	<u>520,790</u>	<u>1,346,823</u>
Total Net Assets	<u>\$ 615,024</u>	<u>\$ 2,638,642</u>	<u>\$ 3,253,666</u>

As reflected above, the City's Total Net Assets are \$3,253,666. This amount represents an increase of \$539,816 for fiscal year 2004. The City had \$1,838,245 in current assets and has invested \$5,348,587 in capital assets, net of depreciation at the end of fiscal 2004. This amount complies with methods for the reporting of capital assets established by the Governmental Accounting Standards Board (GASB).

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CITY OF PETERSBURG  
Management's Discussion and Analysis  
June 30, 2004

The following table demonstrates the changes in the net assets during the current fiscal year.

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
<b>Net Assets</b>			
<b>Beginning of year</b>	\$ 735,083	\$ 2,242,316	\$ 2,977,399
<b>Revenue</b>			
Taxes	403,043	-	403,043
State Grants	244,345	-	244,345
Adm Charges	24,720	-	24,720
Interest and rentals	15,406	-	15,406
Other	22,197	-	22,197
Charges for services	-	341,826	341,826
Adm fees	-	16,596	16,596
Penalties	-	7,849	7,849
Other	-	3,515	3,515
Non-Operating Revenue	-	510,566	510,566
<b>Total Revenue</b>	709,711	880,352	1,590,063
<b>Expenses</b>			
Legislative	12,261	-	12,261
General government	134,770	-	134,770
Public safety	34,863	-	34,863
Public works	217,128	-	217,128
Health and welfare	4,404	-	4,404
Recreation and cultural	55,682	-	55,682
Other	55,027	-	55,027
Debt - Principal	45,000	-	45,000
Debt - Interest-Charges	46,976	-	46,976
Water and wastewater	-	486,954	486,954
<b>Total Expenses</b>	606,111	486,954	1,093,065
Excess (Deficiency)	103,600	393,398	496,998
Transfers			
Transfer (out) -in	(2,928)	2,928	-
Sale of assets	1,500	-	1,500
<b>Total</b>	(1,428)	2,928	1,500
Change in net assets	102,172	396,326	498,498
<b>Net Assets</b>			
<b>End of Year</b>	\$ 837,255	\$ 2,638,642	\$ 3,475,897

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CITY OF PETERSBURG  
Management's Discussion and Analysis  
June 30, 2004

For general government activities, revenues exceeded expenses by \$103,600. Because state revenue sharing has been declining, the City has been cautious in making sure that expenses do not exceed revenues. It is expected that this trend of declining state revenue sharing will continue. For the water and sanitary sewer departments, the revenues exceeded the expenses by \$393,398. This excess revenue resulted from a one-time tap charge to new customers for water service. This revenue will be used to contribute toward the debt service related to the new water transmission system that brings water from the City of Monroe.

**Capital Asset and Debt Administration**

At the end of 2004, the City had \$5,348,587 invested in a broad range of capital assets, including buildings, police equipment, and water and sewer systems. The City's long-term liabilities totaled \$3,530,000, most of which is related to the new water transmission system mentioned elsewhere in this discussion. The City Council has carefully reviewed its ordinances related to fees and rates for both the water and sewer systems and believes that the current rates are reasonable in light of the City's operational and debt service requirements.

**Economic Factors and Next Year's Budgets and Rates**

Several economists have suggested that the economic expansion that has been occurring in the U.S. may help lift Michigan's economy in the year ahead. Without such expansion, Michigan's revenue sharing with cities and villages will continue to shrink. The City's fiscal year 2005 calls for a slight decrease in property tax rates to fund operations. The City Council approved a General Fund budget, including police protection, in the amount of \$489,869 for fiscal year 2005. Because the Statewide Tax Reform Act limits growth in taxable value to the lesser of inflation or 5 per cent, it is likely that the total taxable value of the City will grow by less than the rate of inflation, before considering new property additions. A probable long-term impact of this limitation is that tax rates may be increased to make up for the loss of revenue due to the cap on taxable value. The City will continue to monitor closely the impact of declining state revenue sharing and the limitation of growth in taxable values as the City Council establishes its budget and controls spending.

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, you are welcome to contact the city treasurer for assistance.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT - WIDE FINANCIAL STATEMENTS

# CITY OF PETERSBURG

## *Statement of Net Assets* *June 30, 2004*

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$602,468	\$837,189	\$1,439,657
Accounts/taxes receivable	875	120,070	120,945
Due from other governmental units	49,138	0	49,138
Internal balances	221,192	(221,192)	0
Total Current Assets	873,673	736,067	1,609,740
Capital assets (net of accumulated depreciation)	733,991	4,614,596	5,348,587
Restricted Assets:			
Cash and cash equivalents	0	121,869	121,869
Due from other governments	0	101,387	101,387
Total Restricted Assets	0	223,256	223,256
Other Assets:			
Prepaid expenses	4,849	0	4,849
Deposits	0	400	400
Total Other Assets	4,849	400	5,249
Total Assets	1,612,513	5,574,319	7,186,832
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	37,889	79,868	117,757
Retainage payable	0	118,809	118,809
Accrued interest payable	11,222	17,000	28,222
Escrow	3,378	0	3,378
Bonds payable - current portion	30,000	105,000	135,000
Total Current Liabilities	82,489	320,677	403,166
Long-Term Liabilities			
Bonds payable (less current portion)	915,000	2,615,000	3,530,000
Total Liabilities	997,489	2,935,677	3,933,166
<b>Net Assets</b>			
Invested in capital assets, net of related debt	(211,009)	1,995,983	1,784,974
Restricted for capital projects	0	121,869	121,869
Unrestricted	826,033	520,790	1,346,823
Total Net Assets	\$615,024	\$2,638,642	\$3,253,666

See accompanying notes to the basic financial statements.

# CITY OF PETERSBURG

## *Statement of Activities For the Year Ended June 30, 2004*

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government -			
Governmental activities:			
Legislative	\$12,261	\$0	\$0
General government	151,840	24,720	0
Public safety	111,535	0	825
Public works	164,097	13,690	90,530
Health and welfare	4,404	0	0
Recreation and cultural	18,891	0	0
Interest on long-term debt	46,738	0	0
Other	55,027	0	0
Total Governmental Activities	564,793	38,410	91,355
Business-type activities:			
Water	307,055	125,743	0
Sewer	237,459	240,528	0
Total business type activities	544,514	366,271	0
Total primary government	<u>\$1,109,307</u>	<u>\$404,681</u>	<u>\$91,355</u>

### General Revenues:

Property taxes  
 State grants  
 Debt service and connection charges  
 Interest and rentals  
 Other revenue  
 Gain(loss) on sale or abandonment of assets  
 Transfers

Total general revenues & transfers

### Change in Net Assets

Net Assets - Beginning of year (As Restated)

Net Assets - End of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
(\$12,261)	\$0	(\$12,261)
(127,120)	0	(127,120)
(110,710)	0	(110,710)
(59,877)	0	(59,877)
(4,404)	0	(4,404)
(18,891)	0	(18,891)
(46,738)	0	(46,738)
(55,027)	0	(55,027)
(435,028)	0	(435,028)
0	(181,312)	(181,312)
0	3,069	3,069
0	(178,243)	(178,243)
(435,028)	(178,243)	(613,271)
403,043	0	403,043
152,990	0	152,990
0	602,610	602,610
15,406	11,018	26,424
8,507	415	8,922
1,500	(42,402)	(40,902)
(2,928)	2,928	0
578,518	574,569	1,153,087
143,490	396,326	539,816
471,534	2,242,316	2,713,850
\$615,024	\$2,638,642	\$3,253,666

## FUND FINANCIAL STATEMENTS

**CITY OF PETERSBURG***Governmental Funds  
Balance Sheet  
June 30, 2004*

	General Fund	Major Street Fund	Local Street Fund
<b>Assets</b>			
Cash and investments	\$391,089	\$124,570	\$55,250
Accounts/taxes receivable	761	0	0
Due from other governmental units	49,138	0	0
Due from other funds	315,373	7,571	0
Prepaid expense	4,849	0	0
Total Assets	<u>\$761,210</u>	<u>\$132,141</u>	<u>\$55,250</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$32,955	\$4,833	\$101
Due to other funds	0	64,961	36,791
Escrow accounts	3,378	0	0
Total Liabilities	36,333	69,794	36,892
Fund Balances:			
Reserved for prepaids	4,849	0	0
Unreserved - undesignated	720,028	62,347	18,358
Total Fund Balances	<u>724,877</u>	<u>62,347</u>	<u>18,358</u>
Total Liabilities and Fund Balances	<u>\$761,210</u>	<u>\$132,141</u>	<u>\$55,250</u>

See accompanying notes to the basic financial statements.

Law Enforce. Fund	Sewer Debt Fund	Total Governmental Funds
\$24,604	\$6,955	\$602,468
0	114	875
0	0	49,138
0	0	322,944
0	0	4,849
<u>\$24,604</u>	<u>\$7,069</u>	<u>\$980,274</u>
\$0	\$0	\$37,889
0	0	101,752
0	0	3,378
0	0	143,019
0	0	4,849
<u>24,604</u>	<u>7,069</u>	<u>832,406</u>
<u>24,604</u>	<u>7,069</u>	<u>837,255</u>
<u>\$24,604</u>	<u>\$7,069</u>	<u>\$980,274</u>

**CITY OF PETERSBURG**

*Reconciliation of the Governmental Funds Balance Sheet  
to Statement of Net Assets  
June 30, 2004*

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Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Fund Balances - Governmental Funds</b>	<b>\$837,255</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in Governmental funds.	
The cost of the capital assets is	1,058,387
Accumulated depreciation is	(324,396)
Long-term general obligation bonds payable and accrued interest payable, on those bonds, in the current period and therefore are not reported as liabilities in the funds.	(945,000)
Bonds payable and accrued interest payable	<u>(11,222)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u>\$615,024</u></b>

See accompanying notes to the basic financial statements.

# CITY OF PETERSBURG

## *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances For the Year Ended June 30, 2004*

	General Fund	Major Street Fund	Local Street Fund
<b>Revenues</b>			
Taxes	\$233,510	\$0	\$0
Licenses and permits	5,320	0	0
State grants	152,990	68,434	22,096
Charges for services	8,370	0	0
Interest and rentals	12,542	326	204
Administrative charges	24,720	0	0
Other	8,507	0	0
Total Revenues	445,959	68,760	22,300
<b>Expenditures</b>			
Current Operating:			
Legislative	12,261	0	0
General government	134,770	0	0
Public safety	34,863	0	0
Public works	97,370	24,909	22,958
Health and welfare	4,404	0	0
Recreation and cultural	55,682	0	0
Other	55,027	0	0
Debt Service:			
Principal	0	0	0
Interest and other charges	0	0	0
Total Expenditures	394,377	24,909	22,958
Excess (Deficiency) of Revenues Over Expenditures	51,582	43,851	(658)
<b>Other Financing Sources (Uses)</b>			
Transfers out	0	0	0
Sale of assets	1,500	0	0
Total other financing sources	1,500	0	0
Net Change in Fund Balances	53,082	43,851	(658)
Fund Balances - Beginning of year (as restated)	671,795	18,496	19,016
Fund Balances - End of year	\$724,877	\$62,347	\$18,358

See accompanying notes to the basic financial statements.

Law Enforcement Fund	Water Debt Fund	Sewer Debt Fund	Total Governmental Funds
\$77,832	\$26,486	\$65,215	\$403,043
0	0	0	5,320
825	0	0	244,345
0	0	0	8,370
2,272	0	62	15,406
0	0	0	24,720
0	0	0	8,507
80,929	26,486	65,277	709,711
0	0	0	12,261
0	0	0	134,770
0	0	0	34,863
71,891	0	0	217,128
0	0	0	4,404
0	0	0	55,682
0	0	0	55,027
0	25,000	20,000	45,000
0	1,363	45,613	46,976
71,891	26,363	65,613	606,111
9,038	123	(336)	103,600
0	(2,928)	0	(2,928)
0	0	0	1,500
0	(2,928)	0	(1,428)
9,038	(2,805)	(336)	102,172
15,566	2,805	7,405	735,083
\$24,604	\$0	\$7,069	\$837,255

**CITY OF PETERSBURG**

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2004*

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Amounts reported for governmental activities in the statement of  
activities are different because:

**Total Net Change in Fund Balances - Governmental Funds** \$102,172

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense.

Add-capital outlay	38,542
Deduct-depreciation expense	(42,462)

Repayment of bond principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces  
long-term debt) 45,000

Change in accrued interest payable recorded in statement of activities  
only. Not recorded in the governmental funds. 238

**Change in Net Assets of Governmental Activities** \$143,490

See accompanying notes to the basic financial statements.

# CITY OF PETERSBURG

## Statement of Net Assets Proprietary Funds June 30, 2004

	Business-type Activities Enterprise Funds		
	Sewer	Water	Total
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$183,265	\$653,924	\$837,189
Receivables	54,036	66,034	120,070
Due from other funds	110,142	0	110,142
Total Current Assets	347,443	719,958	1,067,401
Capital Assets:	2,558,526	3,912,405	6,470,931
Less: Allowance for depreciation	(1,143,665)	(712,670)	(1,856,335)
Total Capital Assets	1,414,861	3,199,735	4,614,596
Restricted Assets:			
Cash and cash equivalents	0	121,869	121,869
Due from other governments	0	101,387	101,387
Total Restricted Assets	0	223,256	223,256
Other Assets:			
Deposits	0	400	400
Total Assets	\$1,762,304	\$4,143,349	\$5,905,653
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	5,777	74,091	79,868
Retainage payable	0	118,809	118,809
Accrued interest payable	0	17,000	17,000
Due to other funds	87,399	243,935	331,334
Bonds payable - current portion	0	105,000	105,000
Total Current Liabilities	93,176	558,835	652,011
Long-Term Liabilities:			
Bonds payable (less current portion)	0	2,615,000	2,615,000
Total Liabilities	93,176	3,173,835	3,267,011
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,414,861	581,122	1,995,983
Restricted for capital projects	0	121,869	121,869
Unrestricted	254,267	266,523	520,790
Total Net Assets	\$1,669,128	\$969,514	\$2,638,642
See accompanying notes to the basic financial statements.			

# CITY OF PETERSBURG

## Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2004

	Business-type Activities Enterprise Funds		
	Sewer	Water	Total
<b>Operating Revenues</b>			
Charges for services	\$235,935	\$105,891	\$341,826
Administrative fees	0	16,596	16,596
Penalties	4,593	3,256	7,849
Hydrant rental	0	3100	3,100
Other revenue	0	415	415
Total Operating Revenues	240,528	129,258	369,786
<b>Operating Expenses</b>			
Water purchase	0	29,581	29,581
Administrative fee	10,520	10,940	21,460
Operating and maintenance wages	71,348	51,554	122,902
Benefits	11,664	10,149	21,813
Office supplies	1,006	757	1,763
Chemicals	7,464	8,361	15,825
Operating supplies	6,837	4,506	11,343
Professional services	2,100	3,983	6,083
Utilities	27,593	11,663	39,256
Maintenance and repair - mains	482	8,399	8,881
- other	3,546	4,914	8,460
Equipment rental	1,702	1,194	2,896
Depreciation	67,589	93,517	161,106
Miscellaneous	3,762	2,436	6,198
Insurance - general	1,843	3,685	5,528
- workman's compensation	1,976	824	2,800
Contracted services	18,027	3,032	21,059
Total Operating Expenses	237,459	249,495	486,954
Operating Income (Loss)	3,069	(120,237)	(117,168)
<b>Non-Operating Revenues (Expenses)</b>			
Debt service charge	0	119,418	119,418
Tap fees	2,160	481,032	483,192
Interest income	6,442	1,476	7,918
Interest and other charges	0	(57,560)	(57,560)
Gain (Loss) on abandonment of assets	(34)	(42,368)	(42,402)
Total Non-Operating Revenues (Expenses)	8,568	501,998	510,566
Income Before Transfers	11,637	381,761	393,398
Transfers in	0	2,928	2,928
Change in Net Assets	11,637	384,689	396,326
Net Assets - Beginning of year (As Restated)	1,657,491	584,825	2,242,316
Net Assets - End of year	\$1,669,128	\$969,514	\$2,638,642

See accompanying notes to the basic financial statements.

# CITY OF PETERSBURG

## *Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2004*

	Business-type Activities Enterprise Funds		
	Sewer	Water	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from customers	\$189,785	\$132,116	\$321,901
Payments to suppliers	(67,170)	(271,119)	(338,289)
Payments to employees	(83,012)	(61,703)	(144,715)
Net cash provided (used) by operating activities	39,603	(200,706)	(161,103)
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfer in	0	2,928	2,928
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Bonds proceeds	0	1,724,896	1,724,896
Purchase of capital assets	(25,395)	(1,457,633)	(1,483,028)
Interest paid	0	(67,171)	(67,171)
Debt service and connection charges	2,160	567,192	569,352
Net cash used by related financing activities	(23,235)	767,284	744,049
<b>Cash Flows from Investing Activities:</b>			
Interest income	16,052	1,476	17,528
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	32,420	570,982	603,402
<b>Cash and Cash Equivalents - Beginning of Year (As Restated)</b>	150,845	192,061	342,906
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$183,265</u>	<u>\$763,043</u>	<u>\$946,308</u>

See accompanying notes to the basic financial statements.

# CITY OF PETERSBURG

## *Reconciliation of Operating Income and Cash and Cash Equivalents Proprietary Funds For the Year Ended June 30, 2004*

	Business-type Activities Enterprise Funds		
	Sewer	Water	Total
<b>Reconciliations of operating income(loss) to net cash provided by operating activities:</b>			
Operating income(loss)	\$3,069	(\$120,237)	(\$117,168)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	67,589	93,517	161,106
Changes in assets and liabilities:			
Receivables	(50,742)	2,856	(47,886)
Deposits	0	2,641	2,641
Due to(from) other funds	16,924	14,119	31,043
Accounts payable	2,763	(262,404)	(259,641)
Retainage payable	0	68,802	68,802
Net cash used by operating activities	<u>\$39,603</u>	<u>(\$200,706)</u>	<u>(\$161,103)</u>
<b>Reconciliations of cash and cash equivalents:</b>			
Cash and cash equivalents	\$183,265	\$653,924	\$837,189
Restricted cash and cash equivalents	0	121,869	121,869
Total cash and cash equivalents	<u>\$183,265</u>	<u>\$775,793</u>	<u>\$959,058</u>

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Statement of Fiduciary Funds  
Agency Fund  
June 30, 2004*

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**Assets**

Cash and investments	\$28
Accounts receivable	<u>3,959</u>
Total Assets	<u><u>\$3,987</u></u>

**Liabilities**

Deferred Taxes	<u>\$3,987</u>
Total Liabilities	<u><u>\$3,987</u></u>

See accompanying notes to the basic financial statements.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2004*

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#### Note 1      Summary of Significant Accounting Policies

The financial statements of the City of Petersburg have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### Basis of Presentation

##### A. Reporting Entity

For financial reporting purposes, the City of Petersburg includes all accounts, funds, agencies and boards that are controlled by or dependent on the City. The City owns and operates the water and sewage disposal systems which are enterprise activities included in the annual report.

##### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Individual Enterprise Fund are reported as separate columns in the fund financial statements.

##### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2004*

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#### Note 1      Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

##### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's's primary operating fund. It is used to account for most of the day-to-day operations of the City which are financed from sales tax, property taxes and other general revenues. Activities financed by the general fund include those of line and staff departments withing the City, except for activities of the enterprise funds.

Major Street Fund - To comply with the provisions of Act 51 P.A. of 1951, as amended, which provides that gas and weight tax moneys distributed by the State of Michigan to local units must be segregated from other moneys. This fund is used to account for revenues and expenditures that pertain to the construction and maintenance of major streets.

Local Street Fund - To comply with the provisions of Act 51 P.A. of 1951, as amended, which provides that gas and weight tax moneys distributed by the State of Michigan to local units must be segregated from other moneys. This fund is used to account for revenues and expenditures that pertain to the construction and maintenance of local streets.

Law Enforcement Fund - To account for voted millage levied specifically for law enforcement.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2004*

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#### Note 1      Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

##### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Concluded)

Water Debt Service Fund - To account for the retirement of the general obligation bonds which were used to finance the construction of the water well.

WWTP Debt Service Fund - To account for the retirement of the general obligation bonds which were used to finance the construction of the new sewer system.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds are charges to customers for sales and services. The water and sewer recognizes the portion of tap fees intended to recover the cost of connecting new customers to the system as new operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

It is not the practice or intent of the City to recover depreciation expense with its user charges. The rates for the City's Enterprise Funds are intended to cover all expenses, except depreciation.

The City reports the following major proprietary funds:

Water Fund - To account for the provision of water services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

Sewage Disposal Fund - To account for the provision of sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

Additionally, the City reports the following fund type:

##### FIDUCIARY FUNDS

Agency Fund - Agency Funds are used to account for assets held by the City as an agent. The City has one agency fund which is described below:

Tax Collection Fund - to account for tax collection.

##### D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Short-Term Interfund Receivables/Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

## CITY OF PETERSBURG

### *Notes to Financial Statements Year Ended June 30, 2004*

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#### Note 1      Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

##### D. Assets, Liabilities, and Net Assets or Equity (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

##### Receivables and Payables

Accounts Receivable - Property taxes are levied based on taxable value at January 1 prior to July 1 and become due September 1, and past due after February 28. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible.

Accounts receivables from other governments include amounts due from grantors for approved grants for specific programs. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items. The prepaid balances, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Restricted Assets - Restricted assets in the Enterprise Funds are; cash set aside for the construction and maintenance of the new water line, and receivable due from the State on outstanding bond principal for the construction and maintenance of the new water line.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The City has elected not to retroactively report infrastructure assets. Capital assets are defined by the City as assets with an initial individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	50 years
Water and sewer distribution systems	50-100 years
Buildings and building improvements	30-50 years
Machinery and equipment	5-20 years
Computer equipment	3-10 years
Vehicles	3-10 years

## CITY OF PETERSBURG

### *Notes to Financial Statements Year Ended June 30, 2004*

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#### Note 1      Summary of Significant Accounting Policies (Concluded)

##### Basis of Presentation (Concluded)

##### D. Assets, Liabilities, and Net Assets or Equity (Concluded)

Long-Term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans for future use of financial resources.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Budgetary Principles - The City is required by its charter to adopt an annual budget on or before June 30 for the ensuing fiscal year. The general, special revenue, and debt service governmental fund types and proprietary fund types have legally adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures/expenses become appropriations to the various City departments. Throughout the fiscal year the budget was amended to add supplemental appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

Budgeted revenue amounts represent the original budget modified by City Council-authorized adjustments during the year, which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgets are prepared in conformity with GAAP using the modified accrual basis of accounting.

#### Note 2      Changes in Accounting Principles and Restatement of Fund Balance

##### Changes in Accounting Principles

For fiscal year 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*; GASB No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, GASB No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. At July 1, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2004*

Note 2      Changes in Accounting Principles and Restatement of Fund Balance - (Continued)  
Changes in Accounting Principles (Concluded)

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance

The restatements for GASB Statement No. 34 had the following effects on the transition from governmental fund balance to net assets of the governmental activities.

	Water Fund Business Type <u>Activity</u>	Total Governmental <u>Activities</u>
Fund Balance June 30, 2003	\$3,293,575	\$ 750,583
GASB 34 Adjustments:		
Capital Assets, net of depreciation	-	737,911
Accrued Interest Payable	(4,250)	(11,460)
Long-Term Liabilities	<u>-</u>	<u>(990,000)</u>
Governmental Activities Net Assets at June 30, 2003as Restated for GASB 34	<u>\$3,289,325</u>	<u>\$ 487,034</u>

In addition to GASB 34 adjustments, reclassifications of fund balance and liabilities were recorded to provide a more accurate presentation.

	Water Fund Business-Type <u>Activities</u>	Total Governmental <u>Activities</u>
Fund Balance at June 30, 2003 as Restated for GASB 34	\$3,289,325	\$487,034
Reclassify Water Line Debt, Previously Reported In General Long-Term Debt Account Group	(2,720,000)	-
Reclassify Fund Balance Previously Reported in Debt Service Fund	<u>15,500</u>	<u>(15,500)</u>
Restated Fund Balance June 30, 2003	<u>\$ 584,825</u>	<u>\$471,534</u>

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2004

### Note 3      Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2004, expenditures exceeded final budgeted amounts in the following funds:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Water Debt Fund	\$25,963	\$26,363	\$(400)
WWTP Debt Fund	65,363	65,613	(250)

### Note 4      Deposits

The following are the City's deposits as of June 30, 2004:

	<u>Government-Wide Statement of Net Assets</u>
Cash and Cash Equivalents	\$1,439,657
Restricted Cash and Cash Equivalents	<u>121,869</u>
Total	<u>\$1,561,526</u>

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan. The Council has authorized one depository: Monroe Bank & Trust.

The carrying amount of deposits is separately displayed on the balance sheet as "cash". The following is a summary of these deposits:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Insured:		
FDIC	\$ 116,025	\$ 119,884
Uninsured	<u>1,445,501</u>	<u>1,445,151</u>
Total Deposits	<u>\$1,561,526</u>	<u>\$1,565,035</u>

**CITY OF PETERSBURG**

*Notes to Financial Statements  
Year Ended June 30, 2004*

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**Note 5**      Interfund Receivable and Payable Balances

Interfund balances at June 30, 2004 consisted of the following individual fund receivables and payables:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund:		
Special Revenue Funds:		
Major Street Fund	\$ 59,445	
Local Street Fund	23,606	
Proprietary Funds:		
Water Fund	144,923	
Sewage Disposal Fund	87,399	
Special Revenue Funds:		
Major Street Fund:		
General Fund		\$ 59,445
Special Revenue Fund:		
Local Street Fund	7,571	
Proprietary Fund:		
Sewage Disposal Fund		5,516
Local Street Fund:		
General Fund		23,606
Special Revenue Fund:		
Major Street Fund		7,571
Proprietary Fund:		
Sewage Disposal Fund		5,614
Proprietary Funds:		
Water Fund:		
General Fund		144,923
Proprietary Fund:		
Sewage Disposal Fund		99,012
Sewage Disposal Fund:		
General Fund		87,399
Special Revenue Funds:		
Major Street Fund	5,516	
Local Street Fund	5,614	
Proprietary Fund:		
Water Fund	<u>99,012</u>	<u>          </u>
	<u>\$433,086</u>	<u>\$433,086</u>

**Note 6**      Due from Other Governments

Amounts due from other governments include state shared revenue of \$49,138 and bond proceeds of \$101,387.

# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2004*

### Note 7     Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$67,823	\$0	\$0	\$67,823
Depreciable Assets:				
Building	535,583	38,542	0	574,125
Land Improvements	61,218	0	0	61,218
Vehicles	52,539	0	0	52,539
Computers & Software	14,645	0	0	14,645
Office Equipment	25,738	0	0	25,738
Equipment	116,273	0	0	116,273
Heavy Equipment	146,026	0	0	146,026
Total capital assets	1,019,845	38,542	0	1,058,387
Less accumulated depreciation for:				
Building	87,132	15,941	0	103,073
Land Improvements	33,753	3,061	0	36,814
Vehicles	33,481	4,730	0	38,211
Computers & Software	11,481	1,960	0	13,441
Office Equipment	3,941	2,574	0	6,515
Equipment	96,687	6,895	0	103,582
Heavy Equipment	15,459	7,301	0	22,760
Totals accumulated depreciation	281,934	42,462	0	324,396
Total Governmental Activities capital assets, net	<u>\$737,911</u>	<u>(\$3,920)</u>	<u>\$0</u>	<u>\$733,991</u>
Business Activities:				
Non-Depreciable Assets:				
Land	\$59,362	\$35,000	\$0	\$94,362
Construction in Progress	1,297,251	1,439,038	2,718,390	17,899
Depreciable Assets:				
Buildings	1,030,128	0	0	1,030,128
Sewer system	1,423,757	0	0	1,423,757
Machinery and equipment	792,308	8,991	227,945	573,354
Water system	355,110	2,718,390	0	3,073,500
Generator	22,010	0	0	22,010
Vehicles	2,960	0	0	2,960
Wells	301,484	0	68,523	232,961
Total capital assets	5,284,370	4,201,419	3,014,858	6,470,931
Less accumulated depreciation for:				
Buildings	964,419	33,658	0	998,077
Sewer system	83,194	28,630	0	111,824
Machinery and equipment	536,942	21,276	187,087	371,131
Water system	108,826	67,054	0	175,880
Generator	13,267	734	0	14,001
Vehicles	2,960	0	0	2,960
Wells	239,685	9,754	66,977	182,462
Total accumulated depreciation	1,949,293	161,106	254,064	1,856,335
Total Business Activities capital assets, net	<u>\$3,335,077</u>	<u>\$4,040,313</u>	<u>\$2,760,794</u>	<u>\$4,614,596</u>

**CITY OF PETERSBURG**

*Notes to Financial Statements  
Year Ended June 30, 2004*

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Note 7     Capital Assets (Concluded)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General Government	\$17,070
Public Safety	4,781
Public Works	18,860
Recreation and Culture	<u>1,751</u>
Total Depreciation Expense - Governmental Activities	<u>\$42,462</u>
Business-Type Activities	
Sewer	\$ 67,589
Water	<u>93,517</u>
Total Depreciation Expense - Business-Type Activities	<u>\$161,106</u>

Note 8     Long-Term Debt

The following is a summary of changes in long-term debt:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
1988 Water Well System Limited Tax General Obligation Bonds, bearing interest at rates from 7.6% to 7.7%	\$ 25,000	\$ -	\$25,000	\$ -	\$ -
2001 Sewer Plant Upgrades Limited Tax General Obligation Bonds, bearing interest at rates of 4.75%	<u>965,000</u>	<u>-</u>	<u>20,000</u>	<u>945,000</u>	<u>30,000</u>
Total Government Activities	990,000	-	45,000	945,000	30,000
Business-Type Activities:					
2003 Water Main and Pumping Station Limited Tax General Obligation Bonds, bearing interest of 2.5%	<u>2,720,000</u>	<u>-</u>	<u>-</u>	<u>2,720,000</u>	<u>105,000</u>
Total Government Wide	<u>\$3,710,000</u>	<u>\$ -</u>	<u>\$45,000</u>	<u>\$3,665,000</u>	<u>\$135,000</u>

Annual debt service to maturity for the above bond obligations are as follows:

**CITY OF PETERSBURG**

*Notes to Financial Statements  
Year Ended June 30, 2004*

**Note 8      Long-Term Debt (Continued)**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 135,000	\$ 110,863	\$ 245,863
2006	140,000	106,750	246,750
2007	140,000	102,575	242,575
2008	145,000	98,337	243,337
2009	155,000	93,800	248,800
2010 - 2014	855,000	393,550	1,248,550
2015 - 2019	1,035,000	245,053	1,280,053
2020 - 2024	<u>1,060,000</u>	<u>69,508</u>	<u>1,129,508</u>
	<u>\$3,665,000</u>	<u>\$1,220,436</u>	<u>\$4,885,436</u>

General Obligation Sewer Bonds - \$995,000 issue dated February 1, 2001, by the City of Petersburg for sewer plant upgrades. Funds necessary for payment of principal and interest will be provided by a tax levy.

<u>Year Ended June 30</u>	<u>Interest Due</u>		<u>Principal Due October 1</u>	<u>Total Requirements</u>
	<u>October 1</u>	<u>April 1</u>		
2005	\$ 22,444	\$ 21,731	\$ 30,000	\$ 74,175
2006	21,731	21,019	30,000	72,750
2007	21,019	20,306	30,000	71,325
2008	20,306	19,594	30,000	69,900
2009	19,594	18,644	40,000	78,238
2010	18,644	17,694	40,000	76,338
2011	17,694	16,744	40,000	74,438
2012	16,744	15,794	40,000	72,538
2013	15,794	14,606	50,000	80,400
2014	14,606	13,419	50,000	78,025
2015	13,419	11,994	60,000	85,413
2016	11,994	10,569	60,000	82,563
2017	10,569	9,144	60,000	79,713
2018	9,144	7,481	70,000	86,625
2019	7,481	5,819	70,000	83,300
2020	5,819	3,919	80,000	89,738
2021	3,919	2,019	80,000	85,938
2022	<u>2,019</u>	<u>-</u>	<u>85,000</u>	<u>87,019</u>
	<u>\$252,940</u>	<u>\$230,496</u>	<u>\$945,000</u>	<u>\$1,428,436</u>

# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2004*

**Note 8**      **Long-Term Debt** (Concluded)

General Obligation Water Bonds - \$2,720,000 issue dated March 27, 2003, by the City of Petersburg for construction of new water main and pumping station. Funds necessary for payment of principal and interest will be provided by a one time connection fee to out of city residents, and quarterly debt charge.

<u>Year Ended</u> <u>June 30</u>	<u>Interest Due</u>		<u>Principal Due</u> <u>October 1</u>	<u>Total</u> <u>Requirements</u>
	<u>October 1</u>	<u>April 1</u>		
2005	\$ 34,000	\$ 32,688	\$ 105,000	\$ 171,688
2006	32,687	31,313	110,000	174,000
2007	31,312	29,938	110,000	171,250
2008	29,937	28,500	115,000	173,437
2009	28,500	27,062	115,000	170,562
2010	27,063	25,562	120,000	172,625
2011	25,563	24,000	125,000	174,563
2012	24,000	22,437	125,000	171,437
2013	22,437	20,812	130,000	173,249
2014	20,812	19,125	135,000	174,937
2015	19,125	17,438	135,000	171,563
2016	17,438	15,688	140,000	173,126
2017	15,688	13,875	145,000	174,563
2018	13,875	12,062	145,000	170,937
2019	12,062	10,188	150,000	172,250
2020	10,188	8,250	155,000	173,438
2021	8,250	6,250	160,000	174,500
2022	6,250	4,187	165,000	175,437
2023	4,188	2,125	165,000	171,313
2024	<u>2,125</u>	<u>-</u>	<u>170,000</u>	<u>172,125</u>
	<u>\$385,500</u>	<u>\$351,500</u>	<u>\$2,720,000</u>	<u>\$3,457,000</u>

**Note 9**      **Property Taxes**

The City bills and collects its own property taxes and also taxes for the County of Monroe, Monroe Intermediate School District, Monroe County Community College and Summerfield School District for 2003. The City tax was spread as follows:

General Fund	12.5105	mills
Law Enforcement Fund	4.1700	mills
WWTP Debt Fund	3.4790	mills
Water Debt Fund (Well)	<u>1.4130</u>	mills
	<u>21.5725</u>	mills

The City's 2003 summer and winter taxes were levied July 1, 2003 and December 1, 2003, respectively, on assessed valuation as of December 31, 2002 and were due and payable by August 31, 2003 and February 14, 2004, respectively. State equalized values amounted to \$24,094,400. Taxable value amounting to \$18,663,000 was comprised of \$13,696,567 homestead and \$4,966,433 non-homestead.

## CITY OF PETERSBURG

### *Notes to Financial Statements Year Ended June 30, 2004*

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#### Note 10      Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by Security Benefit Life Insurance Co. The Plan, available to all permanent City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of employees. While the contract is held by the City of Petersburg, the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries. The plan assets cannot be used to satisfy claims of general creditors. Therefore, the amount held in trust is not shown on the balance sheet.

As of July 1, 2002, the City adopted the Municipal Employees' Retirement System of Michigan Defined Benefit Program (MERS). All permanent City employees, excluding the Treasurer and Clerk, will begin contributing to MERS and stop any further contributions to the current deferred compensation plan.

#### Note 11      Employee's Pension Plan Plan Description

Effective July 1, 2002, the City of Petersburg is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan. The City's payroll for employees covered by the system for the year ended June 30, 2004 was \$196,993 out of a total of \$255,702.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees excluding the Clerk and Treasurer, are eligible to participate in MERS. Benefits vest after 10 years of service. Enrolled City employees who retire at age 60 with 10 years, age 55 with 15 years and age 50 with 25 years of credited service are entitled to an annual retirement benefit based on a member's final average compensation (FAC). For this purpose, final average compensation means one-fifth of the aggregate amount of compensation (as defined in the MERS Plan Document, Section 2A(6)) paid to a member during the period of 5 consecutive years of the member's credited service in which the aggregate compensation paid is highest. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2.5% of the member's five-year final average compensation. The retirement allowance is reduced ½ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 447 North Canal Road, Lansing, Michigan 48197.

#### Funding Policy

General employees will contribute 5.0% of their salary to the plan. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was zero for the fiscal year ending June 30, 2004. The contribution requirements of plan members and the City are established by the City and by the MERS Board of Trustees. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method.

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2004

### Note 11     Employee's Pension Plan (Concluded) Funding Policy (Concluded)

Significant actuarial assumptions include: 1.) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, 2.) projected salary increases of 4.5% per year compounded annually, attributable to inflation, 3.) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and 4.) the assumption that benefits will increase 2.5% per year (annually) after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

### Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

The contribution to MERS for the year ended June 30, 2004, of \$9,831 (5% current covered payroll) was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of December 31, 1990. The City contributed \$-0-; employees contributed \$9,831 (5.0% current covered payroll).

### Trend Information

	Valuation Ended December 31,	
	2002	2003
Annual pension cost	\$ -	\$ -
Percentage of APC contributed	100%	100%
Net pension obligation	-	-
Actuarial value of assets	28,333	42,598
Actuarial accrued liability (entry age)	26,934	71,251
Unfunded (overfunded) AAL	(1,399)	28,653
Funded ratio	105%	60%
Annual covered payroll	89,975	189,311
UAAL as a percentage of annual covered payroll	0%	15%

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2004*

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Note 12     Building Department

The City tracks building permit fees and their related costs in the General Fund. Fees for the fiscal year ending June 30, 2004 of \$5,320 did not exceed the related costs and administrative overhead.

Note 13     Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions and employee injuries.

Note 14     Related Party Transaction

The City has sold a small parcel of property (approximately 1,500 square feet) to a City official in the amount of \$1,500.

## REQUIRED SUPPLEMENTAL INFORMATION

# CITY OF PETERSBURG

## General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$233,483	\$233,483	\$233,510	\$27
Licenses and permits	6,450	6,450	5,320	(1,130)
State grants	157,000	157,000	152,990	(4,010)
Charge for services	7,250	7,250	8,370	1,120
Interest and rentals	9,250	9,250	12,542	3,292
Administrative charges	14,370	14,370	24,720	10,350
Other revenue	4,000	4,000	8,507	4,507
<b>Total Revenues</b>	<b>431,803</b>	<b>431,803</b>	<b>445,959</b>	<b>14,156</b>
<b>Expenditures</b>				
Legislative:				
Council	12,700	12,700	12,261	439
General government:				
Mayor	3,300	3,300	2,715	585
Clerk - elections	1,850	1,850	1,206	644
Assessor	6,750	6,750	6,212	538
Attorney	15,000	15,000	4,902	10,098
Clerk	34,380	34,380	31,777	2,603
Independent auditing	3,500	3,500	3,700	(200)
Board of review	1,475	1,475	1,245	230
Treasurer	25,895	25,895	26,636	(741)
Cemetery	505	505	428	77
City hall	14,277	14,277	42,003	(27,726)
Public relations	4,500	4,500	3,756	744
Forestry	20,000	20,000	10,190	9,810
	131,432	131,432	134,770	(3,338)
Public safety:				
Fire department	28,100	28,100	23,100	5,000
Building inspection	13,177	13,177	10,313	2,864
Planning commission	1,621	1,621	1,450	171
Zoning Board of Appeals	202	202	0	202
	43,100	43,100	34,863	8,237

**CITY OF PETERSBURG**

*General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Expenditures (Concluded)</b>				
Public works:				
Department of Public Works	\$101,703	\$101,703	\$73,635	\$28,068
Street lighting	25,000	25,000	22,954	2,046
Sanitation	0	0	781	(781)
	<u>126,703</u>	<u>126,703</u>	<u>97,370</u>	<u>29,333</u>
Health and welfare:				
Mosquito control	5,866	5,866	4,404	1,462
Recreation and cultural:				
Parks and recreation	15,648	15,648	8,368	7,280
Library services	8,554	8,554	47,314	(38,760)
	<u>24,202</u>	<u>24,202</u>	<u>55,682</u>	<u>(31,480)</u>
Other:				
Insurance and bonds	28,000	28,000	12,900	15,100
Workmans compensation	2,300	2,300	2,251	49
Other fringes	37,500	37,500	39,876	(2,376)
	<u>67,800</u>	<u>67,800</u>	<u>55,027</u>	<u>12,773</u>
Total Expenditures	<u>411,803</u>	<u>411,803</u>	<u>394,377</u>	<u>17,426</u>
Excess (Deficiency) of Revenues Over Expenditures	20,000	20,000	51,582	31,582
<b>Other Financing Sources (Uses)</b>				
Sale of assets	<u>0</u>	<u>0</u>	<u>1,500</u>	<u>1,500</u>
<b>Net Change in Fund Balances</b>	20,000	20,000	53,082	33,082
Fund Balances - Beginning of year	<u>671,795</u>	<u>671,795</u>	<u>671,795</u>	<u>0</u>
Fund Balances - End of year	<u><u>\$691,795</u></u>	<u><u>\$691,795</u></u>	<u><u>\$724,877</u></u>	<u><u>\$33,082</u></u>

# CITY OF PETERSBURG

## Major Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
State grants:				
Gas and weight tax	\$68,715	\$68,715	\$68,434	(\$281)
Interest and other	300	300	326	26
Total Revenues	69,015	69,015	68,760	(255)
<b>Expenditures</b>				
Public works:				
Routine maintenance	103,985	103,985	14,948	89,037
Traffic services	2,311	2,311	1,255	1,056
Winter maintenance	6,889	6,889	5,902	987
Administrative and engineering	4,930	4,930	2,584	2,346
Worker's compensation insurance	900	900	220	680
Total Expenditures	119,015	119,015	24,909	94,106
Excess (Deficiency) of Revenues Over Expenditures	(50,000)	(50,000)	43,851	93,851
<b>Other Financing Sources (Uses)</b>				
Operating transfer in	50,000	50,000	0	(50,000)
<b>Net Change in Fund Balances</b>	0	0	43,851	43,851
Fund Balances - Beginning of year	18,496	18,496	18,496	0
Fund Balances - End of year	<u>\$18,496</u>	<u>\$18,496</u>	<u>\$62,347</u>	<u>\$43,851</u>

# CITY OF PETERSBURG

## *Local Street Fund* *Statement of Revenues, Expenditures, and Changes in Fund Balances* *Budget and Actual* *For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
State grants:				
Gas and weight tax	\$22,188	\$22,188	\$22,096	(\$92)
Interest and other	200	200	204	4
Total Revenues	22,388	22,388	22,300	(88)
<b>Expenditures</b>				
Public works:				
Routine maintenance	42,335	42,335	16,499	25,836
Traffic services	1,401	1,401	182	1,219
Winter maintenance	5,360	5,360	4,127	1,233
Administrative and engineering	2,692	2,692	1,930	762
Worker's compensation	600	600	220	380
Total Expenditures	52,388	52,388	22,958	29,430
Excess (Deficiency) of Revenues Over Expenditures	(30,000)	(30,000)	(658)	29,342
<b>Other Financing Sources (Uses)</b>				
Operating transfer in	30,000	30,000	0	(30,000)
<b>Net Change in Fund Balances</b>	0	0	(658)	(658)
Fund Balances - Beginning of year	19,016	19,016	19,016	0
Fund Balances - End of year	<u>\$19,016</u>	<u>\$19,016</u>	<u>\$18,358</u>	<u>(\$658)</u>

**CITY OF PETERSBURG**

*Law Enforcement Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	74,824	74,824	77,832	3,008
State grants:				
Liquor license fees	880	880	825	(55)
Interest and other	300	300	2,272	1,972
<b>Total Revenues</b>	<b>76,004</b>	<b>76,004</b>	<b>80,929</b>	<b>4,925</b>
<b>Expenditures</b>				
Public safety:				
Contract with Monroe County	61,900	61,900	65,036	(3,136)
Salaries	904	904	707	197
Transportation	3,200	3,200	1,692	1,508
Equipment maintenance	5,000	5,000	1,192	3,808
Equipment	1,000	1,000	0	1,000
Utilities	1,750	1,750	1,998	(248)
Telephone	1,500	1,500	763	737
Miscellaneous	250	250	0	250
Supplies	500	500	503	(3)
<b>Total Expenditures</b>	<b>76,004</b>	<b>76,004</b>	<b>71,891</b>	<b>4,113</b>
Excess (Deficiency) of Revenues Over Expenditures	0	0	9,038	9,038
<b>Net Change in Fund Balances</b>	<b>0</b>	<b>0</b>	<b>9,038</b>	<b>9,038</b>
Fund Balances - Beginning of year	15,566	15,566	15,566	0
Fund Balances - End of year	<u>\$15,566</u>	<u>\$15,566</u>	<u>\$24,604</u>	<u>\$9,038</u>

# CITY OF PETERSBURG

## *Water Debt Service Fund* *Statement of Revenues, Expenditures, and Changes in Fund Balances* *Budget and Actual* *For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
<b>Revenues</b>				
Property taxes	\$25,963	\$25,963	\$26,486	\$523
Total Revenues	25,963	25,963	26,486	523
<b>Expenditures</b>				
Debt service:				
Principal	25,000	25,000	25,000	0
Interest and other charges	963	963	1,363	(400)
Total Expenditures	25,963	25,963	26,363	(400)
Excess (Deficiency) of Revenues Over Expenditures	0	0	123	123
<b>Other Financing Sources (Uses)</b>				
Operating transfers out	0	0	(2,928)	(\$2,928)
<b>Net Change in Fund Balances</b>	0	0	(2,805)	(2,805)
Fund Balances - Beginning of year (As Restated)	2,805	2,805	2,805	0
Fund Balances - End of year	<u>\$2,805</u>	<u>\$2,805</u>	<u>\$0</u>	<u>(\$2,805)</u>

# CITY OF PETERSBURG

## *WWTP Debt Service Fund* *Statement of Revenues, Expenditures, and Changes in Fund Balances* *Budget and Actual* *For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$65,363	\$65,363	\$65,215	(\$148)
Interest and other	0	0	62	62
Total Revenues	65,363	65,363	65,277	(86)
<b>Expenditures</b>				
Debt service:				
Principal	20,000	20,000	20,000	0
Interest and other charges	45,363	45,363	45,613	(250)
Total Expenditures	65,363	65,363	65,613	(250)
Excess (Deficiency) of Revenues Over Expenditures	0	0	(336)	(336)
Fund Balances - Beginning of year	7,405	7,405	7,405	0
Fund Balances - End of year	\$7,405	\$7,405	\$7,069	(\$336)



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City Council  
City of Petersburg  
Petersburg, Michigan 49270

Report of Comments and Recommendations

As a result of our examination of the financial statements of the City of Petersburg for the fiscal year ended June 30, 2004, we are making the following comments and recommendations. These comments do not encompass all matters that might result from special studies directed toward such matters.

Budgets

The Budget Act 621 provides for a system of uniform procedures for preparation and execution of budgets of local units of government. We would like to point out certain aspects of this law as it applied to the City and its 2003/04 budget.

Expenditures cannot exceed appropriated amounts. The budget should be compared with the actual expenditures throughout the year and amended when necessary. The budget may be amended more than once and at any time during the year. If the Council finds it necessary to amend the budget, we recommend they commence formal action and document approval in minutes to the meetings. We remind the City it is on the modified accrual method, a method which records an expenditure when the liability is incurred and not necessarily when paid.

Also, the budget should include the amount of fund balance (deficit) accumulated from prior years.

We would be happy to review the City's budget for compliance with the Act at any time.

Act 51 Revenue - Street Funds

Act 51 monies received by the State of Michigan cannot be used to repair or construct sidewalks without related street repair. The General Fund should finance sidewalk construction or repair unless it is related to street repair.

The State of Michigan allows up to 25% of Major Street Fund Act 51 monies to be transferred annually from Major Street Fund to Local Street Fund. We suggest the City consider doing this to help build up the Local Street Fund.

Law Enforcement Fund

The Law Enforcement Fund showed a net income of \$9,038. The fund balance of the Law Enforcement Fund as of June 30, 2004 is \$24,604. This ending fund balance should again be considered for budgetary purposes for 2004-2005.

Equipment Rentals - Intergovernmental

We suggest the City Council monitor these expenses to assure that no fund exceeds its budget. If it becomes apparent that any budget is in danger of being exceeded, we suggest budget amendments be noted in the minutes.

Inventory of Chlorine Tanks

We suggest you take an annual inventory of chlorine tanks at June 30.

Delinquent Personal Property Taxes

At June 30, 2004, there was \$3,959 of delinquent personal property taxes. We suggest the City Treasurer determine which ones are not expected to be collected and write them off. In order to have the proper allocation between funds and governmental units, we will need copies of the tax bills or a breakdown of the tax bills by fund and governmental unit. We suggest the City explore alternative ways to collect from those taxpayers still in business.

Due to Other Funds

The Water Fund owes the General Fund \$144,923 at June 30, 2004. This amount has been steadily increasing over the past several years. The Water Fund is being charged with equipment rental, liability insurance, administrative fee, etc. and has not been paying these amounts to the General Fund. We suggest the Water Fund begin paying back the General Fund as soon as possible.

Use of Pre-numbered Checks

The City has not been using pre-numbered checks for sometime. The destruction of the municipal building and resulting changes might make this a good time to review this practice. To strengthen internal controls and to account for every blank check, we recommend that the City consider using pre-numbered checks. This will also make the monthly bank reconciliation more efficient as the checks will be listed in check number order on the bank statement.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officials and employees of the City. We would be pleased to discuss any of these recommendations with you, and to provide any assistance that you may require in their implementation.

Very truly yours,

*Covey H. Hess, Wollgast & Carlton*

September 24, 2004